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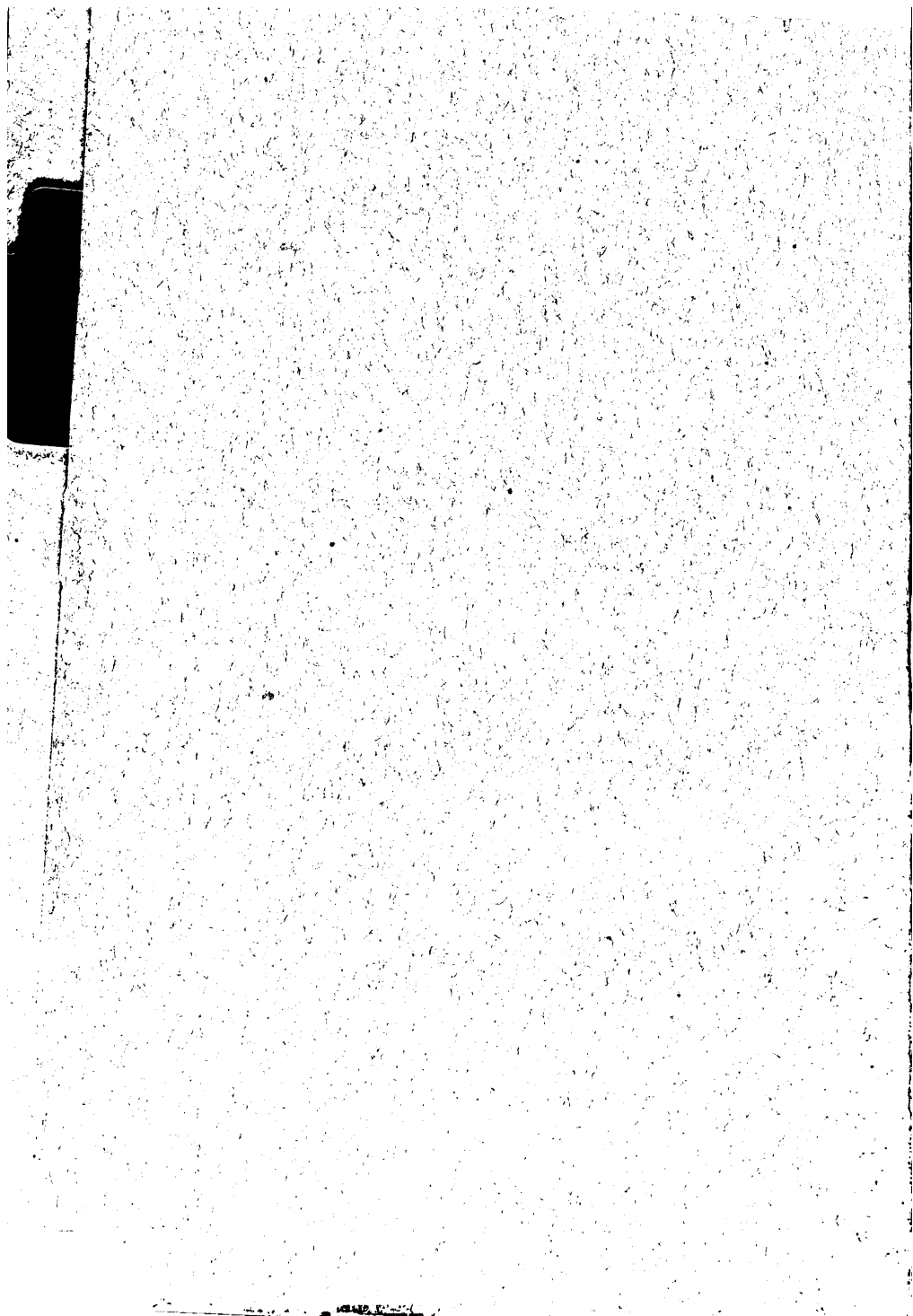
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"NO POLITICS BUT THE CITY'S GOOD."

HOW SHOULD THE FRANCHISE QUESTION BE SETTLED?

A PAPER READ BY

ALLEN RIPLEY FOOTE,
OF TAKOMA PARK, DISTRICT OF COLUMBIA.

AUTHOR OF

*A Discussion of the Economic Principles Involved in "The Law
of Incorporated Companies Operating under Municipal
Franchise." Member of American Economic Asso-
ciation and of the American Academy
of Political and Social Science.*

THE WILLIAM HUGHES PUBLISHING CO.
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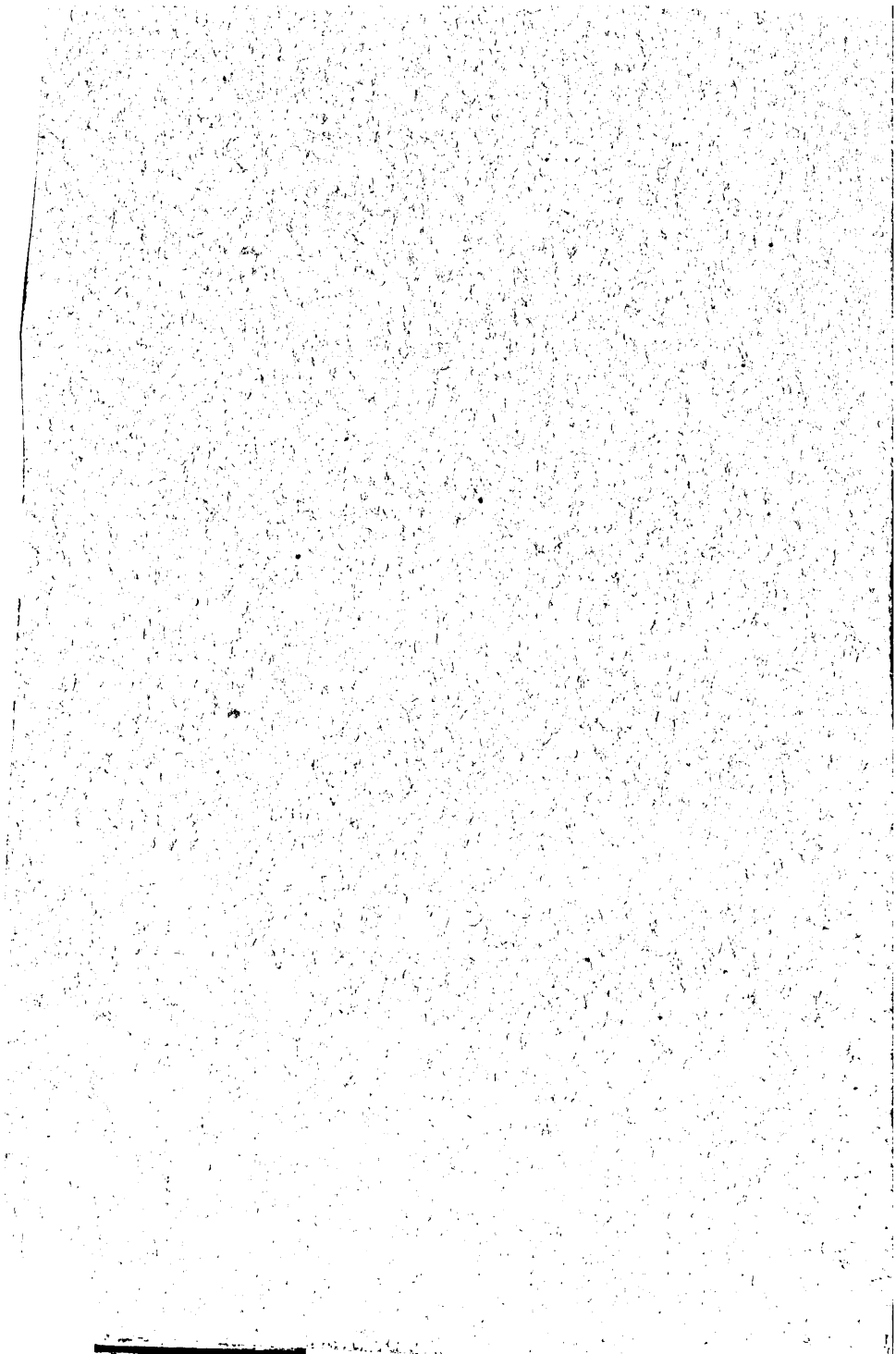
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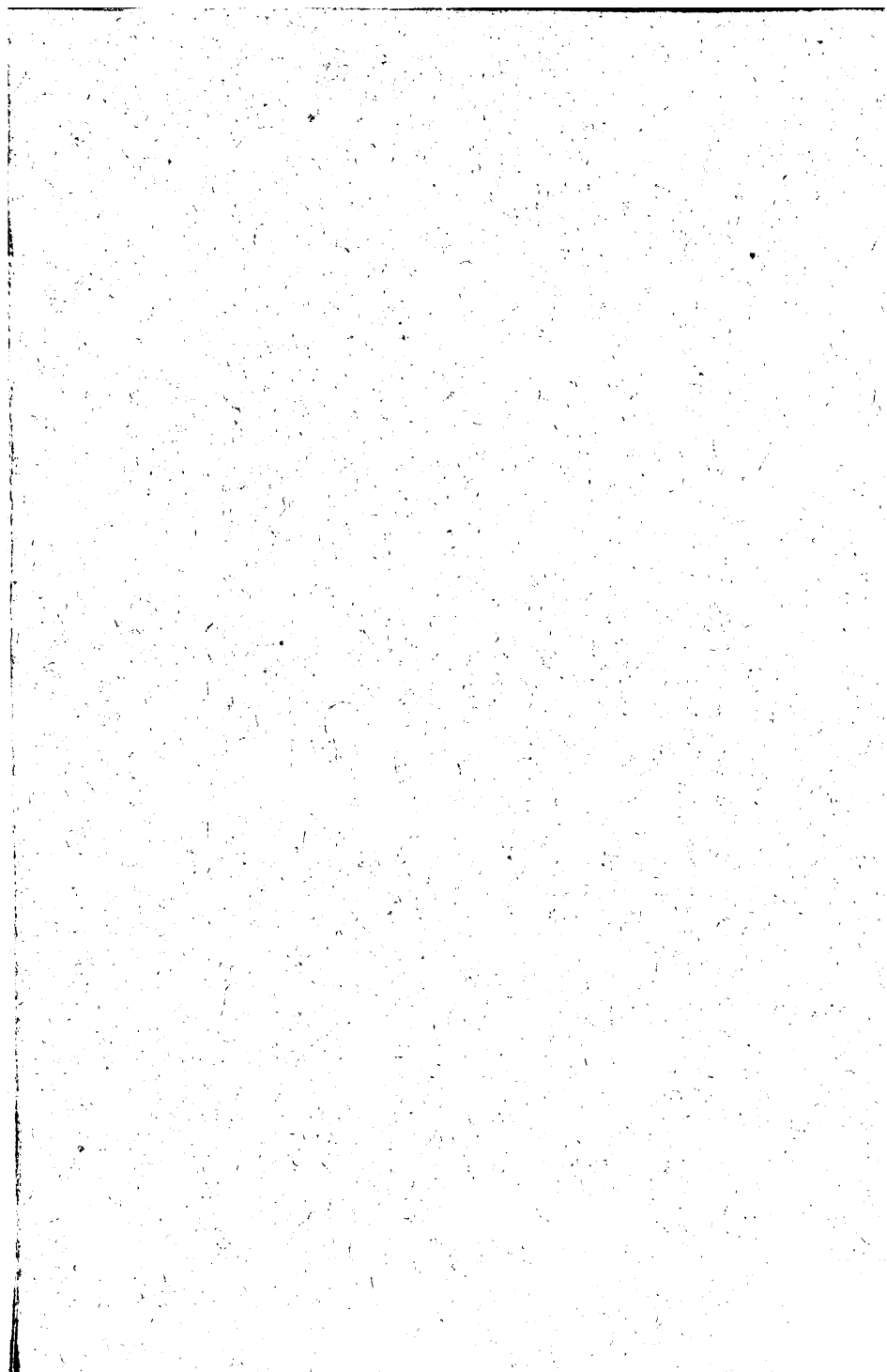
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Review. mif 12-8-31

CITY OF PEORIA.

MAYOR'S OFFICE.

PEORIA, ILL., Feb. 15, 1899.

JOHN WARNER, Mayor.

ALLEN R. FOOTE, ESQ., Takoma Park, D. C.

Dear Sir:—A call has been issued for a State Convention of Illinois Municipalities to be held in this city, March 1 and 2, 1899.

You are undoubtedly informed as to the great public interest that has been aroused in this State by enactments relating to franchises for street railroad corporations, which the people believe to be subversive of their interests. This makes the question of proper franchises for public service corporations an issue of vital importance, and one that will inevitably receive much attention at the convention of municipalities about to be held in this city.

Knowing that you have been writing upon this subject for several years, and believing you to have studied it closely, I invite you to attend this convention, and to prepare a paper to be read before it in which you will give your views as to how this franchise question should be settled.

Kindly advise me at your earliest convenience if it will be possible for you to prepare a paper on the subject indicated, and to read it before the convention. You will recognize the necessity of having a program for the convention completed at an early date.

Yours truly,

JOHN WARNER, Mayor.

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“NO POLITICS, BUT THE CITY’S GOOD.”

HOW SHOULD THE FRANCHISE QUESTION
BE SETTLED?

INTRODUCTORY.

Mr. Chairman and Gentlemen:

The question you have requested me to answer presents the most difficult and important problem now demanding solution by the citizens of this Republic. The widest known and ablest citizen might well shrink from the task of formulating the answer for which you ask. I certainly should hesitate to undertake it did I not feel that ten years devoted to a special study of the subject has been a fitting preparation for the responsibility I have assumed in accepting

your invitation. But once before have I felt the inspiration of a responsibility commensurate with the one I have accepted in responding to your request to give my views on this question in behalf of what I believe to be right and just; for the good of the people and the welfare of our country.

In 1861 I marched from my home in response to the call of our President, to do my duty in defending the unity and honor of our government, the rights and liberties of our people. One year afterward, standing under the folds of the flag presented to my regiment by the patriotic women of 1861, I was struck down by a Confederate's bullet. Fourteen out of sixteen of the color guard were killed or wounded within as many minutes that day. But the flag did not fall. Every man who wore the Blue did his full duty, "That a government of the people, by the people, for the people, might not perish."

I was of the men who stood behind the guns in 1861; I am of the people now. For ten years I have devoted myself to the study and discussion of the economic principles involved in the organization and control of public service industries, a subject which I find has now reached an acute development in your state. I have cultivated the acquaintance and closely studied the views of the managers of every class of public service corporations. I count among my warmest

friends the ablest advocates of the municipal ownership and operation of one or of all public service industries, and have diligently analyzed their demands. Overshadowing both of these, I have listened with acute sympathy to the voices of a great, generous, honest-hearted people, who desire only justice for themselves and who desire to be just to others.

You have called me to perform a duty. You demand of me the truth. I will declare the truth to you, as God has given me the ability to see and understand it. In doing this my words seek audience with your reason; they seek companionship with your hearts. If they satisfy your reason and your hearts that what I say is right and just my duty will be well done. The duty of and responsibility for right action will then be yours.

How should the franchise question be settled? But one answer can ring true to the sense of right and justice in the reason and heart of every citizen of this republic who is worthy of its citizenship. That answer is, "*It should be settled in the interests of all the people.*" Until it is so settled agitation must continue. God's justice is done only when man is just to man: Any law or ordinance enacted to secure a settlement of this question that is unjust to the people cannot endure. All the forces of the universe that make for the good are pledged to its destruction.

This question will never be permanently settled until it is settled right. To accomplish this purpose we must first determine what the requirements of justice for the people are, and then we must find a way to apply these requirements to existing conditions. To this task I ask your attention.

THE RIGHT TO OWN PROPERTY.

The civilization of to-day is founded upon a conception of justice which declares it to be the natural right of every laborer to own and use as he pleases the products of his labor. This right is limited by the requirement that it shall be exercised with a due regard for the same right recognized as the natural endowment of others. In isolation there is no property. As soon as a man becomes associated with others his natural right to do as he pleases with his own is limited by that fundamental principle of justice which requires that all property shall be owned and used with a due regard for the rights of others. Rights to the ownership and use of property are not vested rights. They are not absolute. They are granted and they may be taken away by the consent of society.

Property consists of all things of value which may be owned by the consent of society, given in recognition of its conception of the principles of justice.

The *property quality* of things of value is created by the consent of society practically expressed through the means it employs to protect owners in their right to possess, enjoy and dispose of that which they may legally own. I say *consent of society*, because nothing can be property to the ownership of which there is no social consent or contract to protect anyone's right to possession.

In a final analysis it is clear that the ownership of all property is protected, not by constitutions, enacted laws or decisions of courts, but by the consent of society based on its conception of the principles of justice. Changes in the popular conception of these principles or of their proper application may cause existing constitutions, enacted laws and court decisions to be out of harmony with the popular belief as to what is right and just. Such a change will cause existing conditions to appear unjust. A people stung to the quick by a sense of injustice, believing themselves to be the victims of unjust laws, and unjust administration of laws, or of an unjust commercial or financial system, will not cease to agitate, nor ought they to cease to agitate, until every change is made that is necessary to bring the constitutions and enacted laws upon which court decisions are based into strict accord with their new conceptions of the principles of justice.

Whenever a change occurs in the popular conception of the principles of justice, either through a clearer understanding, or a misunderstanding, of moral and economic principles, and by reason of such changes society withdraws its consent to the ownership of any class of property, all chattels so affected cease to be property. Against the destruction of property by such a cause owners of property have no defense. When a popular verdict has once declared that the right to own a certain thing or class of things shall cease, owners of such property are powerless to maintain their right to ownership even though they defend it with their lives. This fact has an epoch-making illustration in the destruction of property in slaves caused by the withdrawal of the consent of society to such ownership, voiced and made effective by the emancipation proclamation issued by Abraham Lincoln, President of the United States.

The natural law of justice is superior to all constitutions, all enacted laws, all court decisions. It is uninfluenced by the opinions or actions of men. It is the only changeless standard. Rightly understood and obeyed it will enable all men to realize the highest attainable good. Disregarded, whether through ignorance or through immoral intelligence, it punishes with imperious and merciless exactness every step of divergence from a true course.

Justice is born of honesty and intelligence. *Honesty* is the image of God in the hearts of men. *Intelligence* is a condition of mind. Granting the presence of honesty in the hearts of the people, their lack of knowledge as to how to obtain justice and their failure to secure justice must be ascribed to defective intelligence. Honesty will cause all men to wish to do justice, but they will measure the justice they do by their own standard, by their conception or understanding of the principles of justice. If the action of any man is unjust, the cause of his unjust acts must be deficient honesty or defective intelligence. As all whose opinions are worthy of consideration claim to be honest, attention need be directed only to their mental development.

The avowed object of all honest anarchists, socialists and of reformers of every class of opinion and degree of intelligence; the dreams of all philosophers, poets and prophets; the teachings of every professor of ethics, morals and economics; the mission of all government and of all religion, is to cause men everywhere to understand the principles of justice, to incarnate them in their lives as a controlling motive power and force, inspiring and guiding their actions. All efforts of the past; all agitations of to-day; all hopes of the future having as an objective point the betterment of the whole of humanity, morally, socially and econom-

ically, may be rightly interpreted as a demand for justice. Every cause for discontent, every political issue, will be permanently and satisfactorily removed or settled when all men recognize that so far as human agencies in the affairs of men are operative justice is done. A review of the past, a careful summary of the present aspect of all public questions, teaches and emphasizes one fact: *The people want justice but they do not know how to obtain it.*

Reference is made to these fundamental principles because, while there is an apparent agreement regarding them, there is a wide disagreement as to what it is necessary to do to secure justice for the people. This fact proves that there is either a failure in honesty of purpose in seeking a correct application of these principles, or that there is a failure in intellectual ability to discern when a proposed policy involves a departure from them.

All honest persons are in unquestioned agreement on the following propositions:

1. A laborer is entitled to own and enjoy, unmolested, the products of his labor, the wages he receives, the profit he may save.
2. A person who permits others to use his property is entitled to the return of his property unimpaired and payment for its use.
3. Private property shall not be taken for the ben-

efit of public or private users by authority of law, without fair compensation paid to its owners.

4. Public and private users of a service rendered by others have no right to use such service without paying a reasonable price therefor.

This is justice. Any attack upon these propositions, whether ignorantly or intelligently made, is an attack upon the right to own property. It is an attack upon the freedom of laborers. It must be so recognized and dealt with by all honest persons before the people can obtain justice.

When a laborer cannot own and enjoy, unmolested, the profits of his labor, he cannot avoid becoming a slave. His only means of releasing himself from the law of necessity is his power to labor and the right to own the products of his labor.

When the popular conception of justice is so imperfect as to permit one to use the property of another without paying for its use, all inducement to produce more than is consumed will be eliminated, and the generative force that creates property will be destroyed.

When property rightly obtained can be taken by authority of law for a social or public use, or for the benefit of private users, without fair compensation, government will cease to protect the right to own property, it will become the robber of private owners, and will relapse into an irresponsible tyranny, although

it may still be called "a government of the people, by the people."

When in popular belief it is declared to be right for public or for private users to use services rendered by others without paying a reasonable price therefor, laborers will receive only the compensation of slaves.

UNJUST DISTRIBUTION OF PROPERTY.

There is no popular complaint against the principles of justice here declared. All discontent has its origin in a belief that these principles are not properly applied to the distribution of property created by the joint use of the labor and capital of many persons. A proof of this charge, that satisfies the reason of a majority, is found in the enormous wealth of a few and the comparative poverty of the many.

The people believe a great wrong is being done; that the masses are not getting a fair share of the property their labors produce; that they are being robbed. While they believe this, who can blame them for seeking a means of putting a stop to the wrong, for wanting to prevent further robbery? I cannot. I will help them do it.

While the term "robbery" is freely used, it is charged that the robbing has been done legally. The law punishes illegal robbers. The law creates legal robbers. Who enacted the law? This question gives

full force to a fundamental truth. "A government of the people, by the people," is powerless to benefit the people in any greater measure than the honesty and intelligence with which the people govern. Where is the fault in the law? How shall it be corrected?

A just distribution of property is demanded. If to-day we succeed in so readjusting the conditions under which collectively produced property shall be individually distributed for the future so that every factor of production will receive its fair share, discontent will cease. The injustice of the past will be forgotten. If this be not done the agitation will continue. The sense of wrong and injustice will grow more bitter, and the day will come when all hope of securing justice through enacted laws will be lost. An enraged people will then seek release from the servitude of wealth by seizing and distributing property by force unguided by reason, or by attempting to hold it collectively for the common good. In the presence of such a calamity there is but one safe course. Every change made in enacted law should be made solely for the purpose of rendering its operation more just. Every new law enacted should be drawn in the interests of all the people, and they should be so educated that they will approve of it as being right and just. Those who seek to perpetuate past abuses by claiming the protection of laws sure a short

time hence to be pronounced unjust by verdict of the people should have a care. Laws are the creation of public opinion. Safety is not in the law, but in a correctly educated public conscience. Those who demand a change to overthrow the brutal power of wealth should have a care, lest the remedies they propose contain more poison than the miasma of greed of which they complain. They should not mistake honesty for intelligence. They should know that it is not necessary for a person to be dishonest in order to be absolutely wrong. More unjust laws have been written by the cruel hands of innocence and of ignorance than by all other tyrants from whose rule humanity has suffered.

The first blow to stop the unjust distribution of property is apparently aimed at public service corporations. That some of these corporations are guilty of an abuse of power is true. That all are guilty is false. The laws under which these corporations are incorporated and are operating do not properly protect the interests of the people, nor of the corporations. These corporations as they now exist must be removed from the pathway of progress. The guilty and the innocent must alike give place to the incoming of a new order of things, in which no robber baron shall have a place that will permit him to prevent the entire benefits of all mechanical improvements, all increments from growth

of population, all favoring changes in general economic conditions from going unimpaired directly to the people. This demand is made in the name of the people. Recognizing the requirements of justice, that laborers are entitled to the profits of their labor; that those who use property belonging to others should pay for its use; that property taken for the benefit of public and private users should be fairly paid for, and that public and private users of services should pay a reasonable price therefor, the advocates of the people's rights demand that all public service industries shall be owned and operated by the people, for the people, to the end that all benefits collectively produced shall be individually distributed in accordance with the requirements of justice. Before deciding that this is the best solution of the franchise question that can be found, it is necessary to examine the conditions under which municipal ownership and operation must be undertaken, if it is to be successful, and to discover whether or not such an industrial system correctly applies those principles that are universally accepted as being right and just. If it does not, then there must be fatal defects in the system which will prevent it from correcting the existing injustice in the distribution of property.

IS MUNICIPAL OWNERSHIP AND OPERATION A CORRECT SOLUTION OF THE FRANCHISE QUESTION?

Property can be owned collectively, but an industry cannot be operated without an organization. The determination of public policy may be declared by a direct vote of all the people, or by vote of their representatives in municipal councils and state legislatures. This is the legislative function. To carry their declared policy into effect, however, the people must act through constituted agents clothed with executive power. This is the administrative function. When the people own a local public service industry, they must place its operation under the administrative management of their municipal government and depend upon the efficiency of this agent to realize the best obtainable economic results; or they must lease the right to operate to an individual, partnership, or corporation, under contract, the terms of which will secure for the people all the advantages they can justly claim, and guarantee to their operating agent an opportunity to secure fair compensation for the use of its capital and the responsibilities and risks it assumes. In the first instance, the people furnish all the capital, assume all the responsibilities and risks of management, and secure for themselves the full measure of all advantages and profits that their agent can earn for them. In the second instance, the people furnish the oppor-

tunity to operate the industry, grant the right to make special use of their public possessions for its purposes, and define limits beyond which all advantages and profits shall belong to the people, and within which they shall belong to the operating agent. Through which of these systems can advantages and profits produced by the agent of the collective interest be secured in largest measure and justly distributed for the individual benefit of all citizens? If my friends who advocate municipal ownership and operation are right, it must be made certain that all conditions under which municipal ownership and operation is authorized and undertaken are intelligently designed to insure its success, and that none of these conditions shall unjustly destroy or abridge any individual right. While individual rights are limited by a due regard for the similar rights of others, the collective right is limited, by the same rule of justice, by a due regard for the similar rights of individuals. Justice cannot be established by substituting collective injustice for individual or corporate injustice. If justice is ever established it will be through the doing of justice by the collective government, by corporations, and by all individuals.

FRANCHISES REGULATING MUNICIPAL OWNERSHIP AND OPERATION.

The first condition of success for municipal ownership and operation is determined by the franchise

under authority of which municipalities are permitted to undertake such enterprises.

Franchises should be granted to municipalities by a general state law, uniform in its provisions for every town and municipality. This law should constitute every incorporated town and city a legal corporation for the purpose of rendering industrial public services, and clothe them with power to own and operate in the name of and for the benefit of the municipality and of its inhabitants, one or all public service industries, whenever such a policy is determined upon by a majority vote of all registered municipal voters.

This law should require:

1. That every public service industry owned by a municipality shall be owned and operated as a monopoly in order to secure for the people all benefits derivable from natural monopolies.

2. That municipalities deciding to transfer a public service industry from private to public ownership shall take possession of all existing property, by whomever owned, then being used for the purpose of rendering such service, under proceedings for the exercise of the right of eminent domain, or by arbitration, if so mutually agreed upon with the owners of said property.

3. Municipal authorities to dedicate public possessions to and to take private property for the special use required for the effective rendering of the service,

and to adjust the distribution of special burdens or benefits created thereby, by an assessment of damages or benefits on the private property affected, as for other public improvements.

4. The taxation of all private and public users of the service on the basis of the cost of the service used plus such profit, if any, as the municipal council may determine; and that no service shall be furnished to a public or a private user free of charge, or at a price less than the full and entire costs of ownership and operation.

5. Every municipality to include in all statements of cost made to determine the price to be charged to public and private users for service rendered:

(a) Interest on the entire investment at the rate paid by the municipality on its bonded debt.

(b) The cost of insurance against loss by accidents of all kinds.

(c) The value of municipal taxes relinquished by reason of municipal ownership.

(d) The amount of state taxes paid.

(e) The cost of insurance against the impairment of investments by reason of depreciation from use and improvements in mechanical arts.

(f) The cost of all material consumed.

(g) The cost of all salaries and wages paid for administration and operation.

(h) The cost of all sundry expenses not otherwise classified and included.

6. An addition to cost, for the purpose of determining selling price, of a sufficient annual provision for a sinking fund to fully pay at their maturity all bonds issued on account of the industry.

7. All municipalities to keep books of account for each public service industry owned and operated by them, in the form prescribed by the state, and to subject the same to an audit whenever required by a duly authorized officer of the state.

8. The creation of a competent *Board of Municipal Regulation*, which shall have immediate supervision of and be responsible to the municipal council for all details of administration and operation. Said board shall determine all questions of engineering, mechanical and operating details, and shall report to the municipal council at stated periods all information necessary for its guidance in deciding questions of public policy pertaining to the service.

9. All employes shall be protected in their right to employment by civil service regulations which shall provide that no employe shall be discharged without cause, set forth in a written statement signed by the officer ordering the discharge, and after a proper opportunity to be heard in his own defense.

10. The municipal council shall determine the rates

to be charged public and private users for services rendered to them, for periods of five years, and shall provide that all services rendered to any municipal department, or to the municipality in any way, shall be estimated and paid for at the price fixed, out of appropriations for such department, or for the general expense of the municipality.

11. The municipal council, on the recommendation of the Board of Municipal Regulation, may lease to a private person, partnership or corporation the municipal franchise and property then used for the purpose of a public service industry owned by the municipality, on terms that will secure to the municipality all the benefits of municipal regulation provided for in the act, and the additional advantages of employing private capital, for which interest on the entire investment shall be paid at the same rate per cent. as the municipality is at that time paying on its bonded debt, and all responsibility and risks of management to be assumed by the lessee, in consideration of the determination of rates for periods of five years, to be charged by said lessee for services to be rendered to public and private users, on the basis of cost as herein provided, plus a profit calculated at twice the rate per cent. of interest then paid by the municipality on its bonded debt, such lease to terminate at the

expiration of any period of five years, at the option of the municipality.

12. To reimburse the state for the loss of taxes relinquished by reason of municipal ownership and for the expense of supervision and auditing municipal public service accounts, and for the publication in an annual volume by the state, which is hereby required, in form to facilitate reliable comparisons, of the reports of all municipal public service industries, each municipality shall pay to the state an annual tax of one per cent. on its gross receipts from the sale of service to public and private users.

These requirements are designed to develop the highest attainable degree of efficiency for municipal governments, the agent to which the people must intrust the administration of their public service industries when they adopt the policy of municipal ownership and operation.

It is only through expert and honest management, the just individual distribution of the burdens of providing the required investment, and of the costs, responsibility and risks of ownership and operation, and by the just distribution of benefits collectively earned, that the people can hope to realize from municipal ownership and operation the full measure of the advantages they seek.

PUBLIC SERVICE INDUSTRIES ARE NATURAL MONOPOLIES.

That public service industries are natural monopolies and should be so recognized and dealt with is a fact conceded by every intelligent student of the subject. The failure to apply the economic law of monopolies to these undertakings and to regulate them in accordance with its requirements is responsible for all the evils of which the people justly complain. All attempts to secure the best services at the lowest practicable price for users through the regulative force of competition have been, and must always be, as illogical and abortive as an attempt to quench a fire with oil. By what process of reasoning people reach the conclusion that a service can be cheapened by division requiring the duplication of plants, service lines, equipments and managements, instead of by concentration, is not intelligible to the mind of the well informed. The belief that competitors will always fight each other and sell service without a profit has no justification in human experience. Any business that does not earn a reasonable profit must eventually fail. For this reason there can be no permanency to a competition that cuts prices below cost plus a reasonable profit, nor any advantage in a divided business when such division must increase cost and thus raise the basis by which price to users must be determined.

The people of any city owning and operating water works would receive with derision a proposal to cheapen the water service by dividing the industry and constructing a special system for each ward, or one system for public uses and another for private uses. This being true, why should they regard the construction of a lighting plant for public uses and employ another plant for private uses as a sane proposition? Or why should they expect advantages from the division of any other public service?

In order that there may be no division of a public service industry, no duplication of investments and management, no destruction of capital through the wastes of a war of competition, and that all benefits derivable from a monopoly may be secured by the people, it is necessary, in applying the principle of municipal ownership and operation, for the municipality to take for public use all property then employed in rendering the service. The principle that private property shall not be taken for a public use, or for the benefit of others, without just compensation, requires that this shall be done. The assurance that this principle will be fairly applied in every case will go far toward destroying opposition to the progress of the municipalization of these industries, because those owning such investments cannot claim vested rights superior to the rights enjoyed by owners of other property. It is a

necessary condition of the sovereignty of the state that all property shall be held subject to public use under the exercise of its power of eminent domain. The delegation of this power to a municipal government to be applied to certain classes of property is not the creation of a new power; it is the regulation of an existing power. The exercise of this power is necessary to enable municipalities to wipe out the mistakes of the past and transfer public service industries from private to public ownership, and to consolidate and operate them as a unit for the benefit of all the people.

PUBLIC SERVICE FOR SOCIAL BENEFITS.

All public services should be primarily designed for the social as well as the economic benefit of users. One advantage of high importance accruing from principal ownership of public service industries is found in the power proposed to be given to a *Board of Municipal Regulation* to map the city for lines of service; to dedicate public possession to the special uses of the respective services; and to minimize the necessary public investment in construction by condemning the right of way and assessing damages and benefits on the property affected under the rule of procedure for street improvements. This process of development will cause all lines of service to conform to a predetermined plan designed to serve all sections of the city equally well,

to make the growth of the service and of the city symmetrical, to furnish the service by the most direct routes, and to preserve free from the burdens of such services, as near as may be, a corresponding system of streets, thus contributing greatly to the general comfort and pleasures of the people. This procedure will stop "street grabbing" by corporations for speculative purposes. It will end serpentine constructions authorized, not for the good of the city, but to enable one corporation to strike another at as many points as possible. It will bring order out of existing chaos in the method of locating service lines and dealing with abutting property-owners. It will give users an opportunity to secure some of the benefits derived from increments of value created by social conditions.

SERVICE AT COST.

In applying the principles of justice to the solution of questions of public policy, individuals can be considered only as members of a class. There are two classes of users of public services, private and public. In the case of the public user, the taxpayer is the real party in interest, as the cost of all publicly used service must be paid by taxation.

To obtain service at cost is the ideal condition for users. No user can accept a service at less than cost without violating the principle of justice, that forbids

the taking of the service or property of one by another without giving a just compensation therefor. Compensation that does not fully cover cost in the case of a publicly owned service cannot be just.

If users are to obtain service at cost, all service rendered must be paid for. No free service can be allowed. If free service is allowed, those who pay for the remainder of the service must pay for the free service. If they do not, the free service must be paid for by taxpayers until a way is found of really getting something for nothing, or of making one plus nothing equal two ($1+0=2$), a mathematical absurdity. The only just individual distribution that can be made of collectively earned advantages is by having all service assessed and paid for at fixed rates, not less than cost, each private user paying for what he uses, and taxpayers paying for what the public uses. This is justice.

COST MUST BE FULLY AND CORRECTLY STATED.

It is clear, when the price of a service is based on cost, that an understatement of cost must be unjust to taxpayers, because it will inevitably create a deficit which must be paid by taxation; and that an overstatement of costs must be unjust to users, because it will require them to pay more than the actual cost of the

service, and thus create a surplus for the benefit of taxpayers. For these reasons the fundamental basis of a correct public policy must not be left to the judgment of the uninformed, or the caprice of the politically ambitious. It is as clearly the duty of the state to protect property-owners, on the one hand, and private users on the other hand, from unjust exactions by municipal authorities through insufficient or exorbitant charges for public services, as it is to curb the greed of corporations, or safeguard property from being stolen. The state cannot protect users and taxpayers without rigidly requiring that all services must be assessed and paid for at cost, plus any profit that may be authorized by the people, of whom users are in the majority. It must specify all items of cost and make the requirement mandatory that all of the items must be honestly included in every statement made for the purpose of determining cost as a basis for price.

More loss is caused by persons engaged in industrial undertakings who do not know how to calculate cost, and therefore do not know how to calculate prices than by any other fault of judgment. The importance of having cost properly calculated is so great an explanation of the reasons for including in cost every item specified is deemed necessary.

INTEREST ON INVESTMENT AN ITEM OF COST.

Interest is the wage of capital. Wage is the interest of labor. Wage is a guaranteed payment for the use of capital, and of labor, without risk of loss or the right to share in profit. In recognition of this principle, whenever capital is hired for interest only, security is given to make its payment certain, and whenever labor is employed for an agreed wage, the law makes the debt for wages a first lien on the property of the employer.

It is a requirement of economic law that whenever the risk of a loss is incurred the margin for making a possible gain must sufficiently overbalance the chance of loss to justify the venture. The greater the risk of loss the larger must be the prospective gain. No person has an economic right to invest capital and assume the burden and responsibility of its management and without a security against loss, for no greater prospective profit than can be obtained by loaning the capital on bond and mortgage, without responsibility for its management or liability of loss. The first care of a savings bank is security for the principal, the second care is certainty of the payment of the stipulated wage-interest. No laborer has an economic right to enter an extra-hazardous employment for no greater compensation than he can obtain in less haz-

ardous occupations. Whenever a risk of loss is assumed, there must be a corresponding compensation for the risk, either in a higher rate of wage, or by a share of the expected profit.

Persons engaged in any kind of business who fail to calculate interest on their investment as a part of cost deceive themselves as to the cost of doing business or of the product they sell. When they omit interest from cost, and then call the apparent gain "profit," they overstate their profit by the amount that should have been charged off as interest. This error leads many to suppose they are making a profit, when the fact is they are only earning interest and are making no profit. They could secure the same result by withdrawing their capital from business, loaning it on bond and mortgage with ample security for the payment of the principal and interest, and have no responsibility for or labor to perform in connection with its management. Those who unintelligently omit interest from cost understate cost. This leads to the underselling of those who calculate cost properly, a season of doing business without a profit, and ultimate failure; or, on the other hand, it leads to an overstatement of profits, which induces an unjustified extension of the business; creates pressure for cutting down prices under the impression that profits are abnormally large; induces

other capitalists to enter the field and begin a war of competition; develops an era of overconstruction and overtrading, to end in panic and disaster. It is the duty of the state to forbid unsound financial methods in financing municipally owned industries.

The payment of interest on investment and wages for labor is required by the principle of justice that forbids one to use the property or the service of another without paying a just compensation therefor. In the case of municipally owned and operated industries, capital is employed for the benefit of the users of the service. The application of the principle of justice requires that users shall pay for the use of the capital employed for their benefit by including interest for its use in the cost of service for which they are to pay. It is not difficult to get this demand conceded in the case of payment of interest on bonds issued to secure capital to cover the investment. It is more difficult to cause its justice to be understood and acknowledged for that part of the investment that is obtained from taxpayers.

INJUSTICE TO TAXPAYERS.

At this point attention must be called to the relation of taxpayers to the public policy of the municipal ownership and operation of public service industries. Public ownership means the substitution of compul-

sory for voluntary investments. Every dollar taken from taxpayers for investment in municipally owned industries is confiscated. It is taken in violation of the principle of justice that requires just compensation for private property when taken for a public use, or the use of others. Every dollar collected from taxpayers for such purpose is socialized. It is used for the benefit of the public and for others without giving to the taxpayer any compensation whatever. If the taxpayer uses the service—many taxpayers do not because they are nonresidents—he must pay for it the same as all other users pay. He secures no compensation or benefit as a user for having contributed to the investment. Some will argue that taxpayers receive indirect compensation for the money paid as taxes on account of the public ownership of the industry, through the increased value of their property due to the social and economic advantages created by the public service. This argument has no foundation in fact, because the increase in value of property from this cause would be just as great if the service was supplied by a private corporation requiring not one dollar of the taxpayer's money. In comparison with private ownership and operation, municipal ownership and operation cause an absolute loss to every taxpayer, without any compensating benefit whatever, of every dollar ex-

acted from him by the arbitrary power of taxation to provide capital for investment in a municipally owned industry. Taxpayers as individuals lose the principal invested and therefore lose the interest such principal would earn for them if deposited in a savings bank. This fact does not furnish a reason for not including in cost interest on that part of a public investment paid by taxation; it emphasizes the reason for doing so. If taxpayers, as individuals, are unjustly despoiled of a part of their property for the public benefit, and are deprived of any compensation for the use of their capital in perpetuity, taxpayers as a class are certainly entitled to the small modicum of compensation that may be secured through the collection of interest on the tax paid investment and devoting the income so derived to the reduction of general taxation.

The injustice to taxpayers involved in most of the proposals to socialize public service industries is strikingly illustrated by contrasting the difference between the treatment of taxpayers and bondholders. The taxpayer's dollars are taken by arbitrary power and his right of ownership in them destroyed by the withdrawal of the consent of society to such ownership. The dollars of the taxpayer are socialized by the arbitrary extinction of the right of private ownership and thereafter are held and used as social capital. Not

only is no compensation given by society to the taxpayer for his property, but he is denied the right to any compensation for its use. Taxpayers lose their principal and they lose the interest that principal would earn if invested in bonds.

The bondholder's dollars are taken by his voluntary consent and his right of ownership in them is acknowledged in the bond he buys. His dollars are used by the public but are owned by himself. The repayment of the principal and the payment of the wage of capital invested by the bondholder are secured by a mortgage on the taxpayer's property. The bondholder takes no risk of losing his property and enjoys fair compensation for its use while it is employed. If the construction of the works and the rendering of the public service does increase the value of the taxpayer's property, it will increase the value of the bondholder's property in exactly the same way, and to exactly the same degree. If the use of the service brings social and economic advantage to users, these advantages are enjoyed by taxpayers and bondholders in exactly the same way, and to exactly the same degree. No advantage whatever from the use of the service comes to taxpayers that does not come in equal measure to users and bondholders. Users get service at cost, bondholders get service at cost, and they hold security for the repayment

of their investment and for the annual payment of the interest stipulated for its use. Taxpayers get service at cost, but they lose the principal of their investment and are forever deprived of the right to exact any compensation whatever for its use. More than this, if costs are underestimated, or income is not sufficient to fully pay all costs of ownership and operation, and there is deficit, or if there is a great loss from some uninsured cause, the taxpayer, not the user nor the bondholder, must be assessed to make good the loss. Why should the principles of justice be correctly applied in dealing with users and bondholders and violated in spirit and letter in dealing with property owners?

In this analysis it is clearly shown that, unless the principles of justice are correctly applied to every detail of municipal ownership and operation, and rigidly enforced by authority of the state, the policy of the municipal ownership and operation of public service industries will open a way in which all private property may be and will be socialized. Property owners who see in the movement for municipal ownership only an attack upon corporations, with which they are greatly in sympathy by reason of the corrupting and unjust conduct of some corporation managers, will find, if it is not rightly guided, that they have taken a viper into their bosom, which, when they have warmed its ener-

gies into forceful action, will sting them to their death. These words of warning are spoken, not in the interests of corporations as such, but in the interests of all owners of private property, of all industry, of all labor; an injustice done to one is an injustice to all. These words of warning should be gratefully received by all honest advocates of the municipal ownership and operation of public service industries, because the injustice pointed out can be easily eliminated from their program and their cause will thereby gain the strength of an objection overcome.

INSURANCE AGAINST LOSS BY ACCIDENTS AN ITEM OF COST.

Insurance against losses caused by accidents of every kind is one of the marked features of improvements in business methods developed almost into an exact science during the present century. There is probably not a voter, certainly not a city official, who does not protect his private interest by buying insurance in some of its many forms. The only reason any reference need be made to this item of cost is the fact that many custodians of public property think it unnecessary to insure it, because "the people can afford to carry their own insurance." This does not mean the users for whose benefit the service is primarily rendered. If a loss occurs, requiring the investment of new capital in

order to continue the service, no assessment can be made upon users. The course of events cannot be turned backward to give opportunity to increase the price charged for the service, and thus secure from users the price they should have paid at the outset. If insurable losses cause deficits, taxpayers, not users, must make up the amount of the loss, unless the cost of insurance is included as an item of cost.

When it is said "the people can afford to carry their own insurance," bondholders are not meant. They take no risk of loss. If bonds were secured only by a pledge of the property used for the purpose of the industry in behalf of which they are issued, bondholders would be quick to require an insurance on the property to perfect their security. Insurance would then be an item of cost. But while taxpayers' property is mortgaged for the payment of the debt, and the security is so ample that the debt will be paid, although all the property bought with funds secured by issuing bonds should be destroyed, bondholders will not insist upon insurance to perfect their security. Unless city authorities are required to buy insurance for the protection of taxpayers, they will, in some instances, fail to do so, and therefore will have no item of insurance in cost. In this event they will underestimate cost and do an injustice to taxpayers, who must make good all losses by selling service to users for less than cost. It

is unjust to place such a burden upon taxpayers for the benefit of users.

TAXES RELINQUISHED AN ITEM OF COST.

When property is transferred from private to public ownership it is withdrawn from the list of taxable property and placed on the list of untaxed municipal property devoted to public use. This causes a loss of municipal income by the amount of taxes the municipality would have received had the property remained in the hands of private owners. This loss is an item of cost directly due to municipal ownership.

At the present time the importance of this item may be understood by taking notice of the widespread and earnest discussion of the problem of the amount and form of compensation public service corporations should pay to municipalities for the privileges they enjoy. Whatever this amount may be, it is lost to the municipality whenever it takes possession of the industry, and the general tax levy must be increased by the amount of the loss in order to maintain municipal income. The basis of taxation is narrowed by the value of the property withdrawn from the taxable list, but the aggregate amount required to be raised by taxation is not correspondingly reduced; therefore, the tax rate must be correspondingly increased on the property remaining on the taxable list. Here is another instance

where an injustice will be done to taxpayers, for the benefit of users, unless the property used for a public service industry is taxed for the full amount it would be required to pay if belonging to private owners, the amount of the tax being included as an item of cost, collected through the price charged to users and paid into the municipal treasury by the Board of Municipal Regulation. If users secure service at cost they certainly cannot complain that a part of that cost is the same tax a private corporation would be required to pay if it owned and operated the business. The corporation would be compelled to include the tax as an item of cost because it would be compelled to pay the tax, and the user would pay a price for the service calculated to reimburse the corporation.

While taxpayers are the only class that can be made responsible for the debts and losses incurred in behalf of socialized public service industries undertaken for the benefit of users, they should be protected in every possible way from being compelled to carry unusual and unnecessary burdens on users' account. This is just to taxpayers. If users are just they will insist upon paying the full and true cost of the service they use. They will be abundantly satisfied with obtaining service at cost.

INSURANCE AGAINST IMPAIRMENT OF INVESTMENT—DEPRECIATION—AN ITEM OF COST.

An investor's security is not perfect unless he can at any time recover his capital unimpaired. Universal experience demonstrates the fact that no machine or equipment used for the purpose of rendering a service can be sold after only one year's service for as much as was paid for it when new, and that the ratio of depreciation will be increased with each additional year of service.

Other causes than the actual depreciation of the life of machinery, apparatus, and equipment operate more powerfully than natural wearing out from use to depreciate the value of plants used for the purpose of rendering public services.

Improvements by invention and the natural development of mechanical arts are so rapid, and produce such radical changes, no part of the machinery, apparatus or equipment of a public service corporation can be kept in use until it is actually worn out. Long before the worn-out date is reached it becomes more economical to send the old to a junk shop and buy new, up-to-date machines, apparatus and equipment.

The function of an investment insurance account is to create a reserve fund by assessing the entire investment a fixed rate per cent per annum as an item of

expense, setting apart the amount so realized as a reserve fund for the purpose of paying for all costs of betterments, maintenance and minor constructions without increasing investment account. If this is properly done the effect will be to maintain the property in a condition worth at any time the full cost of investment, or, in other words, in a condition that would make the cost of duplication at any time equal to the investment. When an industry is so financed, the investment is absolutely secure, being fully insured against impairment.

The fact of depreciation is not affected by the opinions of bookkeepers. Its presence is certain, and it will make itself felt in due time. One of the most reprehensible practices of the speculative financing of corporations is to make no charge for depreciation in current cost and overstate profits by the amount so falsified. When a plant is new and repairs are light, with no charge for interest on investment, and no allowance for depreciation, large profits are falsely shown, large dividends are erroneously paid, and the stock is quoted above par. This process may continue for a few years. The speculative public, always superficial, if it ever investigates at all, concludes that the stock is a "fancy brand," because a regular payer of large dividends readily makes a market for it at high quotations. This renders it easy for the know-

ing ones to "unload" on innocent victims and secure the fruits of their speculation with which to "organize" another industry and repeat the process. In the course of time the expenditures that should have been taken care of from a reserve fund, created for investment insurance, are forced by the inexorable logic of events into the current accounts of the corporation. The then managers find it impossible to maintain former dividends. The pressure of the inevitable is upon them. They must pay the penalty of the sins of those who were before them. In spite of all they can do dividends sink, and sink, and finally disappear. New capital is required. It cannot be obtained. The opportunity of the speculator has come again. The stock that was unloaded far above par can now be bought at less than par. The works can be overhauled, new machinery, apparatus and equipment supplied, the plant enlarged and the undertaking started on a new career to repeat its former experience. The many do not understand; the few do. The many try to get rich and fail. The few get enormously rich. Not because there is *necessarily* an unjust distribution of property, but because fundamental principles, which, if correctly understood and applied, would unerringly effect a just distribution, are ignorantly violated or intelligently ignored, and the course of events exact a penalty for sins committed. If the

distribution of wealth is unjust, the remedy lies in finding and stopping the *cause* of the injustice. In the problem under consideration a potent cause of injustice is found in the robbery of the future to make an untrue showing of a present success. The disease of greed works with fatal effect on financial and political speculators. The one is greedy for money, the other is greedy for political power. The temptation of a corporation manager to make a good showing for his stockholders is great, but it is no greater than the temptation of a political manager to win prestige from the noncritical masses by claiming that he has, or can, cut corporation prices one-half by municipal ownership and operation. That the worst features of corporate speculative financing are being perpetrated in municipal financing of public service industries is proved by the evidence of official reports. If the people want justice they should know it cannot be obtained in this way.

Users are the only ones who may object to the inclusion in cost of a large percentage on the entire investment for investment insurance. All other interests are served by it. It is a protection to taxpayers and to bondholders. They should favor and demand it most strenuously. The opposition of users to it, if any there be, will be due to their misunderstanding of its object and effect. This will be

made clear to them in due course of time if the principle is once correctly applied and continuously adhered to. It may be admitted that prices will be a little high for a few years by reason of the charge for investment insurance as an item of cost, but in the course of time the greater efficiency of machinery the gradual extensions of service, and the betterments paid for out of this reserve fund without any increase of investment, will result in an increased service capacity based on a stationary investment. This will reduce the proportionate charge for interest on investment, for taxes relinquished, and for investment insurance, thus reducing fixed charges. Operating expenses will also be greatly reduced on account of increased efficiency, so that, in the long run, prices to users will be less, and the service rendered to them will be greatly improved and far more satisfactory, than it can be if the correct principles here advocated are not properly applied to the solution of the problem: How to secure the best services at the lowest practicable price to users.

The state should not permit speculative financing in the accounts of municipally owned and operated public service industries. Its function is, not to contribute to the success of a political policy, but to establish justice for all of the people. This it can do only by requiring that the principles of justice shall be

correctly and inflexibly applied in all details of the undertakings it authorizes. Whenever the state delegates a power, it is the duty of the state to prescribe the limits within which it shall be used and an accounting showing the results of its use. The motto of the state should be: Liberty for the right; suppression for the wrong.

MATERIAL CONSUMED—SALARIES AND
WAGES PAID—SUNDRY EXPENSES—
ITEMS OF COST.

That materials consumed, salaries and wages paid and sundry expenses of all kinds should be included as items of cost admits of no argument. The essential requirement in this behalf is to have the accounts so kept that comparisons of all similar items month by month, and year by year, in their relation to each other, and to the total service rendered, shall furnish reliable guidance to continually improve the efficient administration of the industry. In no other way can there be any reasonable hope of reaching a condition of highest attainable economic efficiency. This requirement is so clearly in the interest of users, taxpayers, bondholders and all who are identified with and responsible for the creation and direction of municipal public policy and government, it should be demanded and insisted upon by the united voices of all the people.

ANNUAL PROVISION FOR PAYMENT OF BONDS.

If municipal public service industries are undertaken and financed, as they should be, solely in the interest of users, users should supply the investment. If they do not, they must always suffer from the handicap of having to pay taxpayers for the use of the capital employed. The ideal sought by advocates of municipal ownership and operation is to make it certain that all advantages growing out of favoring social and economic conditions, inventions and improvements in mechanical arts, of a general character, and all advantages derivable from favoring local conditions, shall be collectively gathered and individually distributed, without impairment, for the benefit of all the people, through supplying service to users at cost. The full measure of this ideal cannot be realized, even after the agent through which the people must operate—the municipal government—has been developed to the highest degree of efficiency in economical management, if the undertaking continues to employ an investment supplied by others. The principle that requires one to compensate another for the use of his property or services cannot be violated without starting public policy in a wrong direction, which, if persisted in, must inevitably undermine and destroy the ownership of property and the independence of labor.

Users can supply all the capital required for the ownership and operation of public service industries whenever the demand for a service is sufficiently concentrated and large to render the undertaking a commercial success. If such a demand does not exist, or cannot be quickly developed, the undertaking should not be entered upon. It should wait for the growth of the community to reach a point where it can afford the improvement.

The capital for municipally owned public service industries should be obtained through including in price an annual provision for a sinking fund, at a rate per cent. calculated on the entire investment, that will, if paid and compounded annually at four per cent. interest, produce an amount sufficient to return to its owners the entire amount of their investment at the termination of a period of thirty-five years. This will require an annual assessment of one and one-half per cent. on the entire investment to be added to total cost, to determine price. If municipal cost is in reality sufficiently less than corporate price to justify municipal ownership and operation, it must be more than enough less to permit of the addition to cost of this provision for a sinking fund to pay back the borrowed capital employed. In other words, municipal cost, plus provision for bond sinking fund, ought to make a price less than corporate price. If it does not, there can be

no sound economic reason for undertaking the municipal ownership and operation of the industry. If municipal cost, plus provision for bond sinking fund, is lower than corporate price, then, while users are providing the required capital through this addition to cost, they will in reality be paying less for the service than under former conditions; therefore, they will experience no hardship, no burden or liability will be placed on taxpayers, bondholders will have ample security, and, in due course of time, the ideal consummation will be reached, with justice to all, with injustice to none, when all trace of private capital will be eliminated from the socialized industry. To the realization of this ideal, if it is the best ideal that can be found, every advocate of the municipal ownership and operation of public service industries, every user, every taxpayer, every bondholder, every investor in public service industrial properties should lend their united efforts for the good of all the people.

FORMULA FOR CALCULATING MUNICIPAL PRICE.

This discussion of the subject has now reached a point at which the conclusions indicated can be gathered into the statement of a concrete formula for calculating municipal price as follows:

Plus Interest on entire investment.

Plus Cost of insurance against loss by accidents.

Plus	Cost of municipal taxes relinquished.
Plus	State tax paid.
Plus	Insurance against impairment of investment.
<i>Equals</i>	<i>Fixed charges.</i>
Total	Fixed charges
Plus	Cost of materials consumed.
Plus	Salaries and wages.
Plus	Sundry expenses of all kinds.
<i>Equals</i>	<i>Cost.</i>
Total	Cost
Plus	Provision for bond sinking fund.
<i>Equals</i>	<i>Price.</i>

ACCOUNTS PRESCRIBED AND AUDITED BY THE STATE.

Dependence for the success of the policy of the municipal ownership and operation of public service industries must be upon the correct and continuous application of the principles of justice, and the continuous honesty and intelligence with which the affairs of the municipality are administered. To realize such conditions, a uniform system of accounts, prescribed and audited by the state, designed to make the application of just principles obligatory, is a fundamental requirement of success. In no other way can the individual interests of users, taxpayers, bondholders, municipal councilmen, executive officers and employes be effectively protected. In no other way can a high degree of economical efficiency in municipal administra-

tion be developed. If this be not done the policy of municipal ownership and operation of public service industries is addressed to a preordained failure. In all human experience the successes of the ignorant and incapable are recorded as failures by those who write impartial history.

Every person who has undertaken to gather the teachings of experience from records of such industries as are now owned and operated by municipalities knows how impossible it is to obtain information worthy of credence by those who seek only the good of the people. They know that the accounts as kept do not correctly show the full and entire costs of the services rendered. They know there is no proper application of the principles of justice to the financing of such industries; that there is no correct rule universally applied for determining a reasonable price to be charged to users for services rendered.

Beyond this, and not of secondary importance, is the loss through the want of uniform system of accounting of all advantages derivable from reliable comparisons between municipalities of the results of administration, which are possible only when all similar items are charged under the same general heading. Only by such comparisons can the relative economy of the administration of each municipality be determined. Only through such comparison can the genius,

ability and skill of the members of Boards of Municipal Regulation, of their superintendents, heads of departments, and of all employes from highest to lowest, for the duties they are intrusted to perform, be demonstrated, and proper credit for work well done be earned and given.

No person who honestly desires the success of the municipal ownership and operation of public service industries; no member of a municipal council; no executive office of a municipal government; no public employe who seeks to do his whole duty solely for the good of all the people, can intelligently do otherwise than to cordially approve of, sincerely recommend and earnestly work to secure the adoption of a uniform system of municipal accounting to be prescribed, audited and reported upon by the state.

BOARD OF MUNICIPAL REGULATION.

No machine, however perfect, has ever been manufactured that did not require brains to watch over it, keep it in order and direct its operation. The best results are obtained only when the best guns have the best men behind them. The work of improving municipal governments will only be half done when the machinery of government has been thoroughly overhauled and provided with every up-to-date improvement. Men of honest purpose and exceptional

ability, trained for the duties they are to perform, must be commissioned to operate the machine. I am not of those who believe the lack of efficiency in municipal governments is largely due to the inability of the men intrusted with the duties of administration. I believe the failure is due very largely, if not entirely, to the faulty machines they are called upon to operate. Under existing conditions municipal officers have no fair opportunity to demonstrate their ability. Under the system here suggested they will have. A system that will enable those now in office to make better men of themselves is better than one which requires the displacement of those now practically engaged in managing municipal affairs, in order to bring in new blood. The blood now in office is good enough if it is only properly warmed for action and its energies are rightly directed.

In every municipality the three men selected for the Board of Municipal Regulation should be the ablest municipal officers in the employment of the people. The duties of their office will acquaint them with existing conditions, the needs and the possibilities of the municipality and of its inhabitants. To these three officers, acting as a Board of Municipal Regulation, all administrative questions pertaining to the construction of works, location of service lines, equipments, character of service, methods by which

a service may be rendered and schedules governing its operation can safely be intrusted. Responsibility for success must be centralized. The efficiency of public management will gain or suffer in public estimation by comparison with corporate management. It is unreasonable to expect municipal officers to make as good a showing for their management as corporation officers do, unless they are continued in office, paid as well for their services and given as complete control of the business features of the industry they are expected to manage successfully. If municipal industries are to accomplish the greatest good of which they are capable, they must be placed under the management of Boards of Municipal Regulation and the public must reward effective service with certainty of permanency in office and just compensation.

CIVIL SERVICE REGULATIONS FOR EMPLOYEES.

The dignity, the honor, the independence of labor will be meaningless words on the American lips until it is an established fact that every public employe of a municipality, of a state and of the republic can hold his place of employment by right of his own merit. From no other cause do advocates of the municipal ownership and operation of public service industries fear defeat as much as they do from the making of

the patronage involved the football of party politics. If men may be given employment in and carried on the payrolls of such undertakings to reward loyalty to party bosses instead of because their labor is necessary and well performed, if men who are capable and faithful in the performance of their duties may be arbitrarily discharged to make room for favorites and party workers, all hope of reducing municipal cost to the level of corporate price should be abandoned before the undertaking is entered upon. FAILURE, in large letters, is written over the entrance to every industry managed in the interests of party politicians instead of all the people. This fact is clearly seen by everyone who has been or is in position to know from practical experience the inefficiency of political in comparison with private corporate management.

That prominent advocate of the municipal ownership and operation of public service industries, the Hon. John MacVicar, Mayor of Des Moines, Iowa, and President of the League of American Municipalities for 1898, in his presidential address to the league at its second annual convention, held in Detroit, Mich., August 1-4, 1898, said:*

"To my mind, it would be suicidal to enlarge the func-

* See Proceedings of Second Convention League of American Municipalities, 1898, page 13.

tions of municipalities without providing for the thorough application of the merit system in appointments, promotions and removals."

The Hon. Edward Kibler, a member of the Municipal Code Commission of the State of Ohio, after making as searching an investigation of the subject as is possible to human intelligence and industry, in an address on the work of the Commission, before the Ohio State Board of Commerce, at Columbus, Ohio, January 18, 1899, said:

"The Commission will earnestly recommend to the Legislature for adoption a compulsory merit system of appointments, applicable to the employment and removal of every city officer and employe whose employment and removal shall be controlled by reasonable and practicable tests of fitness and by no other consideration. * * *

"The Commission regards the adoption of such a system as essential to the success of the experiment of local self-government, and believes that there are few intelligent people in Ohio, and no politicians who have any regard for the public weal, who are opposed to the principle of the selection and retention of public servants by the test of ascertained merit. * * *

"Under existing conditions, the Commission is not in favor of municipalities embarking in the ownership, operation or control of street railways, and, in

general, doubts the wisdom of municipal ownership and operation of waterworks, gasworks, electric light and power, telephones and the like, for the sole reason that *nothing but financial disaster can be expected as the result of the political control of such vast interests.*"

PRICES FOR SERVICES DETERMINED BY MUNICIPAL COUNCILS.

The determination of public policy is a legislative function. It is an open question of public policy whether public services should be sold at cost, as near as can be safely calculated, excluding the principle of deriving a public revenue from such sources, or whether the sale of such services should be made the medium of indirect taxation to raise public revenue for any specific or general purpose. Such a question should be left open to be determined by each municipality for itself in the light of its own necessities, or trend of public thought. With all the facts before it, supplied by the reports and estimates of the Board of Municipal Regulation, and the comparative reports published by the state showing the results of operation for every municipally owned industry in the state, a municipal council can intelligently determine prices for public services that will be right and just, in accordance with the adopted policy of the municipality.

In industries of this nature a reasonable period of

time is required to permit the full development and fair trial of any adopted schedule of prices. For the benefit of the service; and to promote certainty of calculation for the people in the economical management of their private affairs, it is desirable that changes in prices for public services shall not occur at too frequent intervals. Experience seems to indicate that the determination of prices for periods of five years will be attended with the most satisfactory results for the good of the service and the benefit of the people, and the adoption of such a period is earnestly recommended.

RIGHT TO LEASE FRANCHISE AND PROPERTY.

If the management of municipal public service industries is to be determined solely by the application of sound business principles, municipal governments must be as free as private corporations to secure a commercial advantage in whatever way it can be best obtained by operating or by leasing its franchise and property.

Municipal governments possess no power to achieve success in the management of industries beyond the limits assigned by the honesty and intelligence with which they are administered and the economic conditions under which they are operated. So long as there

are some successes and many failures in the management of private corporations there will be some apparent successes and many failures in the management of industries by municipalities. It is an ordinary occurrence for the owners of private property to lease its use to others who are better able to manage it successfully. The right to lease is as valuable as the right to own. It is simply the right to dispose of the use of property to the best advantage for its owners.

A right given to municipalities by a general law of the state to lease their franchises and property used for the purpose of rendering a public service will not affect any municipality that is managing its industries in an efficient and satisfactory manner. It will open a way out of difficulties for any municipality which, through faults of its own, or a combination of circumstances it is powerless to control, finds itself temporarily unable to manage an industry to as good advantage for the benefit of its inhabitants as it can secure by contract with private persons. The law is permissive, not mandatory. It should limit the lease to the short period of five years, thus securing for the people an opportunity to review their action at frequent intervals, and to change their policy in such way as may at the time appear to them to be best calculated to serve their interests to their best advantage.

This right to lease places to municipalities in a po-

sition to manage their own local affairs in their own way, without the necessity of obtaining further or special grants of power from the legislature, and is as essential to a full degree of liberty in "home rule" as is the grant of the general power to own and operate public service industries. It is, in fact, a necessary extension and regulation of that power which municipalities must possess if they are to be in position to at all times do that which is or may become most desirable to them in the light of their individual necessities, condition and experience.

COMPENSATION TO THE STATE.

A general adoption of the policy of the municipal ownership and operation of public service industries will result in the withdrawal of an enormous amount of property from the taxable list, and a consequent great loss of revenue to the state, unless provision is made whereby the state can derive a revenue from municipally owned and operated industries. The question of compensation to be paid to the state by public service corporations is only second to that of the compensation they should pay to municipalities. In both applications it is a question of public policy. In the one form it affects only the interests of users and taxpayers within municipalities. In the other form it affects the interests of all the people of the state.

While municipalities should be free in the management of these industries to carry out their adopted policy in their own way, so far as it affects solely their domestic affairs, it is unreasonable for them to claim exemption from the policy of the state adopted to regulate its relations with all corporations—municipal and private—owning and operating public service industries. The requirement of the state, on both classes of corporations, should be identical.

The mistake should not be made of regarding the state tax on public service industries, here proposed, as a burden. If values are rightly estimated, the service rendered by the state in prescribing a uniform system of accounting, in auditing the accounts, and publishing an annual volume of reports that will enable the people of any municipality to correctly judge the economic efficiency of the management of their own agents in comparison with that of any other, or all municipalities in the state, will be accepted as of greater value than the tax paid for the support of the state government and for the special services performed by it. Without the checks and the direct helpfulness of such a system of state supervision there is no rational hope of the policy of the municipal ownership and operation of public service industries ever becoming generally successful.

Having stated the terms on which the state should

grant franchises to municipalities, permitting them to own and operate public service industries, and given reasons for the terms suggested, based on a correct application of the principles of justice, the terms on which the state should grant franchises to public service corporations, permitting them to own and operate public service industries, will now be discussed.

FRANCHISES REGULATING CORPORATE OWNERSHIP AND OPERATION.

If the terms proposed for municipal franchises are right and just, then the same terms, so far as they can be made applicable, contained in corporate franchises will render such franchises right and just. The application of the principles of justice must be identical in both cases, if justice is to be established. The safeguards for the interests of users, of taxpayers, of employes, of investors, of the general welfare of the municipality and of the state should be identical whether an industry is owned and operated by a municipality or by a corporation.

In either case a Board of Municipal Regulation should be created, endowed with power to determine all questions relating to locations for lines of service; to open the right of way for the same under the rules of procedure for street improvements; to determine the character of motive powers to be used; the char-

acter of the equipment by means of which a service is to be rendered; the character of the service and the schedules on which it is to be operated.

In either case the municipal council should have power to determine questions of public policy involved in fixing for periods of five years the prices at which services shall be rendered to users, and the compensation to be paid to the municipality by corporations.

In either case the municipality should have the option to decide, at the termination of any period of five years, whether it will continue to operate its municipal industries or lease them; or whether it will permit corporations to continue to operate such industries or require their transfer to public ownership, and operation, exercising the option to purchase contained in the corporate franchise or lease.

In either case the system of accounting prescribed and audited by the state, and the comparative reports of operation published by the state, should be identical, and the state should assess the same tax on both classes of industry.

In either case prices to users should be based on cost, including identically the same items of cost, calculated on the entire and true investment, and determined for the same periods of time.

The legislature of the state and municipal councils

should deal with public service industries in the way best calculated to benefit public and private users, regardless of the agent by which they are owned and operated.

Every regulation and condition here suggested, designed to render municipal ownership and operation efficient and successful, will tend with equal force to render corporate ownership and operation efficient and satisfactory.

Every requirement insisted upon for the protection of users, of taxpayers, of employes and of investors is as fundamental a requirement for the correct application of the principles of justice under one form of ownership and operation as the other.

By placing the municipal and the corporate ownership and operation of public service industries upon identically the same basis; permitting them to operate under franchises identical in terms; subjecting them to an identical system of state accounting, auditing and reporting, and of municipal regulation, the people can learn the truth regarding the results of operation, and can intelligently decide which of the two agents—municipal governments or business corporations—can and does serve their interests best. No more potent force can be conceived to stimulate each agent to its best endeavors, than the competition for supremacy thus induced between two powerful rivals enjoying

equal terms and no favors. If it is true that corporations have been a cause of corruption, it may become true that they will be the means of purifying government, whether municipal, state or national. Opportunity for blackmail and for corruption will die together. Neither can live under a well-regulated system of uniform accounting and publicity. When the accounts for all municipally owned and operated public service industries are placed in exact comparison with similar accounts for corporations, municipalities will be compelled to adopt strict business methods, and do their utmost to reach a high standard of economic efficiency, or acknowledge defeat by having the people place the industry under the management of a more efficient agent—a business corporation. All advantages from such a competition must go direct to the people.

PRICE AT COST VS. PRICE AT COST PLUS PROFIT.

Under municipal ownership and operation justice demands that users shall pay the full and entire cost of the services rendered to them. No honest user can intelligently claim that price should be fixed below cost.

Under corporate ownership and operation justice demands that users shall pay the full and entire cost of

the services rendered to them, plus a reasonable profit arbitrarily fixed at twice the rate per cent., calculated on the entire investment, that the municipality is paying on its bonded debt.

The fact that users will be required to pay no profit in one case, and a profit in the other case, may lead the noncritical to suppose that prices to users will be lower under municipal than under corporate ownership and operation. Such a conclusion can be reached only by those who neglect to take account of and to properly value the profit-producing factor of self-interest, which is eliminated under municipal and retained in full force under corporate management.

Profit is the direct product of man's thinking power, utilizing to the utmost all materials and labor, all genius, skill, care-taking and energy at its command, concentrating and directing the whole force of industrial organization to the one purpose of economical production. The vital force of self-interest is destroyed when laborers, directors and investors are denied the right to own the profit that may be produced by their united efforts. The denial of a profit to those by whose efforts it must be created, if at all, destroys the production of the profit. Profit eludes the grasp of those who seek unjustly to take it, as the secret of life eludes the surgeon's knife. In transferring an industry from corporate to municipal ownership the people can kill

the nergy of the profit-producing factor, but they cannot grasp the fruits of its toil.

When operated under the conditions stated, the only margin of advantage there is to be gained through transferring an industry from corporate to municipal management is the margin of the legally limited corporate profit. To gain this profit private capital must be destroyed to the full amount taken from taxpayers by the arbitrary power of taxation and the full amount taken from users by indirect taxation through including in price a provision for the payment of bonds. In no other way can the capital of private investors be eliminated from the problem and its place be filled by socialized capital. In addition to this all costs, all responsibility, all risks of ownership and operation must be assumed and the margin of profit, narrow as it is, must be expected to shrink by the full difference in efficiency between a noninterested political and a vitally interested business corporate management. The verdict of experience will be that the advantage of the legally limited corporate profit cannot be appropriated by users for their own benefit through socializing an industry. Those who cannot learn this fact through reason will have to secure it through experience.

Private property exists only because society consents to its ownership in recognition of that principle of jus-

tice which declares that a laborer has a natural right to own the products of his labor. Profit is the product of labor. Deny laborers the right to own the profit they produce and the desire to produce a profit will die. When desire is dead effort will cease. Without effort profit cannot be created. The progress of civilization is induced by offering rewards to industry, thrift and enterprise. The more certain it is made that those who earn a profit shall own it, the greater will be the energy with which the elements of prosperity will be developed.

FORMULAE FOR CALCULATING MUNICIPAL AND CORPORATE PRICE.

MUNICIPAL FORMULA.		CORPORATE FORMULA.	
Investment	Equals	Investment	
Plus interest on investment	Equals	Plus interest on investment.	
Plus insurance against accidents	Equals	Plus insurance against accidents.	
Plus municipal taxes relinquished	Equals	Plus municipal taxes paid.	
Plus state taxes paid	Equals	Plus state taxes paid.	
Plus investment insurance	Equals	Plus investment insurance.	
Equals fixed charges	Equals	Equals fixed charges.	
Total fixed charges	Equals	Total fixed charges.	
Plus cost of materials consumed	Exceeds	Plus cost of materials consumed.	
Plus salaries and wages	Exceeds	Plus salaries and wages.	
Plus sundry expenses	Exceeds	Plus sundry expenses.	
Equals cost	Exceeds	Equals cost.	
Total cost	Exceeds	Total cost.	
No profit	Less than	Plus legal profit.	
Total cost equals price	Equals	Total cost plus profit equals price.	

This statement clearly demonstrates that municipal cost will exceed corporate cost, and that municipal price at cost, will be equal to corporate price, which includes corporate cost and profit. It also shows that a uniform system of accounting identical for municipalities and corporations will admit of placing the accounts of each in direct comparison with the other, and will enable the people to see the exact difference in efficiency between the two agents, to one or the other of which they must intrust the operation of public service industries. Such accounting will demonstrate the truth of the statement I have always affirmed: When all legislative conditions are equal, municipal waste will be found to exceed corporate profit; therefore, the people can secure public services through a properly regulated corporate monopoly better and cheaper than they can through municipal ownership and operation.

If the day ever comes when this statement is proven false it will be because the efficiency of municipal governments has been vastly improved by their efforts to compete with corporate management on equal terms. Such a result cannot fail to be an advantage to the people of high and enduring value. The hope of attaining such an improvement in municipal government should inspire all who seek only the city's good to unite their efforts and work without ceasing to es-

tablish conditions without which it cannot be secured.

It will be noticed that no provision for the payment of municipal bonds has been added to municipal cost, in the above example, as it should be, to determine municipal price. If this is done municipal price will be higher than corporate price, while the bonds are being paid, provided the difference between municipal and corporate costs only equals corporate profit.

PROFIT-SHARING WITH EMPLOYEES.

When price is determined at cost, excluding any allowance for profit, there can be no profit to be shared with employees or anyone else.

In organized industry profit is a joint product of those who represent labor and capital. Under this condition, that principle of justice which awards the ownership of profit to its producers is never correctly applied unless it distributes the collective gain by awarding the same per cent. of profit to every employe on every dollar of wages earned as is paid to every investor on every dollar of his investment. Interest is the wage of capital. Wage is the interest of labor. After payment of wages has been made to labor and to capital, the divisible surplus, if any, should be distributed to each at the same rate per cent. on wages earned and capital invested dollar for dollar.

If it is true that the right to own a profit is the inducement that causes its production, and that when this right is denied the profit is not created, then it is undeniably true that all profit distributed to employes, as proposed, will be a social gain created without placing a burden on users on the one hand, or on investors on the other. Much talk there always is about the mutual interests of labor and capital. The application of the principle of profit-sharing can alone remove this mutual interest sentiment from the domain of theory to the domain of practical utility.

A system that secures to employes no share in the results produced by their skill, diligence and care in making use of their time, and of the materials intrusted to their use to be consumed by the processes of operation, causes the loss of the economic value of their thinking power applied as a profit-producing factor. The product of this profit-producing factor cannot be grasped by those who withhold reward, because it is not created. The loss of this profit tends to keep laborers poor and deprives society of the advantage of a correct individual distribution of a collective gain.

It is an encouraging sign of the time to note the tendency among the best managed corporations to recognize the justice of the principle that employes should be secure in holding their positions and gaining promotion by right of their own merit only, and that

they should be encouraged to use their best endeavors, and rewarded for so doing, for the success of the industry, by sharing in the prosperity they help to create. A notable example of intelligent appreciation of the service rendered by employees is furnished by the domestic policy of the Illinois Central Railroad Company, and many other large corporations. Such examples should exert a powerful influence on all industrial organizations and speed the day when the mutual interests of labor and capital will become a tangible fact in every instance of collective industrial production.

PROFIT-SHARING WITH THE MUNICIPALITY.

It is not possible to foresee the course of economic changes, and the results of operation, for a period of five years with sufficient accuracy to enable any Board of Municipal Regulation to so estimate cost and income that one will exactly balance the other year by year during the whole term. That one will exceed the other is inevitable. Sound financing requires that income should exceed costs, because the division of a surplus is an agreeable and profitable adjustment, while the division of a deficit among users for whose benefit it was created, through price being too low, is an impossibility. When estimates of costs and income are made to determine price, an allowance for error

should be included on both sides to make it certain that there shall be no deficit. If by good management and favoring circumstances costs are kept below, or income is increased above estimates, one or both, the resulting surplus should be divided equally between the corporation and the municipality. Such a division will give to each its full share of the value of all unforeseen and unassigned increments of economic gains. Such a final distribution of the net products of the industry to the creation of which users, the municipality, employes and investors have all contributed, removes the last remaining cause for antagonism or dissatisfaction.

Satisfaction for all parties in interest is a fundamental requirement to induce permanency of working conditions. Satisfaction can permanently exist only when it is based on reason made intelligent by a correct knowledge of facts, showing all requirements are adjustable at frequent intervals, by clearly understood and predetermined regulations, which give free expression to all desired changes, and operate to cause the full measure of every attainable advantage to go directly to the benefit of all the people.

EXISTING COMPARED WITH SUGGESTED CONDITIONS.


By a comparison of existing with the suggested conditions, an estimate may be formed of the proba-

bility of securing sufficient advantage to justify attempting to displace the present chaos or want of system with the system advocated.

The granting of unregulated power to municipal governments to own and operate industries is like placing the operation of a powerful and complicated machine in charge of a novice. He may make the machine operate, but he cannot produce the results an expert in the management of such a machine would easily secure. The chances are all in favor of the machine being wrecked and the operator being crippled or killed.

The granting of unregulated power to corporations to own and operate public service industries places them in position, and forces them to handle the business exactly as every man handles his private business; seeking every advantage they can grasp, giving as little and taking as much as they can get, because they have no assurance that their competitors or the public will deal with them on any different terms.

The system of regulation proposed will do for the public just what the licensing of engineers, the giving of diplomas to physicians, the admission of lawyers to practice is designed to accomplish. It will establish tests for fitness to perform the duties to be undertaken, inspect the work done, and make the right to the patronage of the people depend upon a record of



merit. Such a system will assist even the incapable to become capable, it will weed out the inefficient, and will secure to the capable full credit and reward for their accomplishments.

Under this system all reasons for granting competing privileges are rendered null, and all reasons of handling an industry for an entire municipality as an undivided unit are given full force. When price is determined by cost, price will be lowered by concentration, not by division.

By giving the power to determine all engineering and technical details to a Board of Municipal Regulation, the most capable officers of municipal governments are placed in position to serve the interests of users and of the municipality to the best of their ability. This city officials cannot now do.

By giving the power to municipal councils to determine price to users and the compensation to be paid to the city, limited only by cost plus a legally determined and limited profit, municipal councils are placed in position to apportion all advantages equitably between users and taxpayers in accordance with the adopted policy of the people, and to readjust this apportionment at stated intervals of short duration. This city councils cannot now do.

By the powers given to the Boards of Municipal Regulation and to municipal councils, all features of

construction, operation, prices for services and compensation to the city are made adjustable whenever occasion requires, or at short stated periods, the only limit being cost plus legal profit; this basis itself being flexible and determined by the actual results of operation and general economic conditions. Every improvement, every special local condition, every favoring change in general economic conditions that tends to make the service better, or cheaper, or to lower the rate of interest on the city's bonded debt, will carry the full benefit of its advantage unobstructed directly to the people. This is not the way the people's interest is served now.

By basing all calculations of cost on investment and providing that investment shall only be increased as the requisition of the Board of Municipal Regulation shall make additional investment necessary, all concern about existing issues of stocks and bonds, and all care about future issues is dismissed. When investment, not stocks and bonds, is made the basis on which cost is determined, and price is limited by cost plus a legal profit, the public has no interest in the stock and bond issues of any corporation. They become a purely private detail of domestic management. Existing conditions are vastly different from this.

By giving the municipality the option to take the

property of a corporation, at the expiration of any period of five years, by paying therefor only the amount of the authorized investment then being used as a basis for calculating cost, and providing if this is not done that the corporation shall be entitled to another five-year term of service, all questions as to the termination or extension of existing franchises are settled in a way far more advantageous to the people and without injury to corporations, than is now rendered possible by any existing law or ordinance, or by the proposals of those who are seeking to solve this problem in the interests of corporation or of the people.

By adopting a short term adjustment on an agreed and clearly defined basis, all antagonisms growing out of efforts to gain an advantage by corporations, or by the people, through fixing prices for services and rates of compensation to be paid to the city for fifty, or thirty, or twenty, or even ten years, and making franchises terminate at the same time, are avoided. Experience teaches how absolutely incapable those in authority at any given time are of forecasting the future with sufficient accuracy to enable them to determine what conditions shall regulate a public service, even ten years in the future, not to mention longer periods.

It is said that "coming events case their shadow

before them" and that "the pathway of the future must be lighted by the experience of the past." Who can tell what the next ten years may bring forth by inventions and improvements in the arts that may and should be utilized for the benefit of the people through the public services rendered for their social and industrial benefit? Ten years ago it is said that the price of liquid air was from \$2,000 to \$3,000 per gallon, and very little of it could be had at any price. To-day, it is claimed that it can be produced for 3 to 4 cents per gallon. Steam power costs from \$36 to \$40 per year per horse power. Niagara water electric power costs from \$15 to \$20 per year per horse power. At present reported cost of production, liquid air power should cost from \$7 to \$10 per year per horse power.

The invention of a new electric glow lamp is announced by Professor Walter Nernst of Gottingen University, which, it is claimed, if put into general use, will reduce the cost of electric illumination more than one-half. If reports are true, where it now requires three watts of electrical energy per candle power the new method will use only ninety-six-one-hundredths watts. These are shadows cast before the commercial success of these inventions or discoveries.

If anyone will make a list of the facilities, mechanical contrivances and chemical products in common

use to-day, which are such marked features of our present social and industrial conditions, that were wholly unknown, or thought incapable of being brought into commercial use in the days of his earliest recollections, he will not fail to understand why all attempts to fix industrial conditions for the entire life of a generation by the measure of present accomplishments are denounced as conspiracies against the people. Swift as the course of events has been, there is no case where an important invention or discovery has been sufficiently developed and tested to justify its general adoption in a less period than five years. Under the regulations suggested, no obstacle is interposed to the adoption of any improvement at any time. For doing so no new law or ordinance will be required; only a requisition of the Board of Municipal Regulation. At the utmost limit, the only advantage a corporation could grasp would be the gain made by lowering cost for a period of five years, one-half of that gain would be paid over to the municipality and price to users for the next period of five years would be determined on the basis of the lower level of cost. There can be no conspiracy in this.

Attention should now be called to one fact which ought to modify the fervor of those who loudly demand that the people shall reap the benefits of all inventions and discoveries, of all improvements devel-

oped by science and the mechanical arts through municipal ownership. Not one of the improvements for the benefit of which they so loudly clamor has originated in the workshops or laboratories of a socialized industry. Should not this fact protect all industries from the palsy of profitless, heartless, operation, caused by the destruction of individual self-interest through an unnatural effort to gain an advantage for all by denying a justly earned advantage to those by whose genius or labor it is created? All advantages enjoyed by the people to-day, all they are likely to enjoy in the future century have been, and must continue to be, secured by inducing the thinking power of each individual applied as a profit-producing faculty, to do its best through guaranteeing to him the ownership of the profit he may produce.

THE SOLUTION WANTED.

Those who advocate the municipal ownership and operation of public service industries declare that all they seek or desire is to secure justice for the people.

Those who are trying to obtain long-term franchises with fixed conditions claim that what they ask is necessary to secure justice for investors.

To one the municipal ownership and operation of public service industries appears to be the only way in which the fullest measure of advantages derivable

from such industries can be made a certain heritage for the people.

To the other legal rights acquired by legislative enactments granting long-term franchises fixing prices for services to be rendered, and limiting the compensations that can be demanded by the city, appears to be the only way in which permanency, security and profitable employment for capital can be safeguarded.

Both are wrong. Both are chasing an ignis-fatuus.

It is right that the people should have every advantage they can justly claim, but the object sought will be defeated by the means used to secure it, if the party of popular demands are permitted to intrust large, complicated and highly technical industries, to the management of municipal governments not properly organized and regulated to operate them successfully.

It is right that investors should have permanent security for the profitable use of their investments, but the object sought will be defeated by the means used to secure it if dependence is placed upon legal rights conferred by enactments secured in defiance of a protesting people; by enactments the people believe were corruptly procured; by enactments the people believe to be unjust. Amidst all of the uncertainties of the present situation one thing is certain. No corporate right secured for a long term of years by a

legislative enactment the people believe to have been corruptly procured, or that the people feel to be unjust, will ever live out the term of the grant. Attempts to maintain rights so secured will inevitably lead to a conflict between the people and the representatives of corporate power in which corporate vested rights, regarded by the people as vested wrongs, will be wiped out by the people's imperious vengeance, as crisp paper may be destroyed by a flame of fire.

Those who seek the elimination of interests, profit and private ownership through socializing public service industries, and those who are making interest, profit and private ownership odious through anarchy induced by unjust laws, are both equally wrong.

What the people and what investors really want and must have if the best results are to be obtained for each, can and will be secured, but not on the basis advocated by extremists on either side. Those who are not guided by correct principles cannot be depended upon to formulate and apply the requirements of justice. They claim to want a solution that will be permanent, right and just, but their proposals do not contain the proper elements out of which such conditions can be created.

THE SOLUTION FOUND.

By combining regulations necessary to render the municipal ownership and operation of public service industries successful, if it can be made successful, with regulations necessary to render corporate ownership and operation of such industries just, the people will secure a fuller measure of advantage than it is possible for them to gain by any other means. Investors will secure permanency and profitable employment for their capital pledged by the faith of the people founded on reason made intelligent by a correct knowledge of the facts, showing established conditions to be right and just. A firmer base than this on which to rest corporate rights does not exist in human affairs.

Such regulations, and such a combination of regulations have been fully described. They furnish a solution of the problem which causes the people to say to investors: This is our business. For its purposes we will employ your capital under your own management. We will insure your investment against impairment; we will pay you a reasonable profit for its use while it is so employed, and when we are done with it we will hand it back to you dollar for dollar. All advantages that can be secured from the business beyond the fulfillment of our agreements with you shall be ours.

Such an offer the people can afford to make. Such

an offer investors can afford to accept. It holds the scales of justice in even balance. For both parties to the contract it is right and just.

HOW CAN EXISTING CORPORATIONS BE INDUCED TO ACCEPT THE TERMS PROPOSED?

No enemy is conquered until he has been made a friend. Existing antagonism cannot be overcome with a club. A conflict of interests cannot be merged into a peace by mutual agreement without the drawing of a contract acceptable to both parties. Let these proposals be most carefully examined by those who have the power to act. Let the terms suggested be proposed by the people, in the form of permissive legislation, so that corporate investors can have in definite, tangible terms the contract they are asked to accept, which will be of no effect unless accepted, and will apply only to such corporations as do accept it. Municipalities and corporations must be perfectly free to act individually, and as their individual interest may direct. It must be expected that acceptances for a time will be few and slow. If the principles of justice are correctly applied in the provisions of the permissive general state laws, and the municipal ordinances that must be enacted to give legal authority and effect to the regulations and terms here advocated, a grow-

ing recognition by the people and by corporate investors of the justice of the conditions so created, can safely be depended upon to bring about a complete transformation from the present condition of chaos and antagonism to a new condition of intelligent regulation, mutual confidence and satisfaction. Such a step of progress will be an epoch-making demonstration of the ability of the people to govern wisely. It will demonstrate that the American people have the judgment and the courage to do the right when the right is pointed out to them in a way to appeal to their sense of justice. Who will lead the people in an effort to win by educational methods this peaceful victory for right and justice?

